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CAUSE NO. ____________

THE STATE OF TEXAS, Plaintiff, V. LIFE PARTNERS HOLDINGS, INC., LIFE PARTNERS, INC., BRIAN D. PARDO, and R. SCOTT PEDEN, Defendants, ADVANCE TRUST & LIFE ESCROW SERVICES, L.T.A, PURCHASE ESCROW SERVICES, LLC, PARDO FAMILY HOLDINGS, LTD., DR. DONALD T. CASSIDY, AMERICAN STOCK TRANSFER & TRUST COMPANY, Relief Defendants	§ § § § § § § § § § § § § § § § § § § §	IN THE DISTRICT COURT OF TRAVIS COUNTY, TEXAS ________JUDICIAL DISTRICT

PLAINTIFF'S ORIGINAL VERIFIED PETITION AND APPLICATION FOR TEMPORARY RESTRAINING ORDER, TEMPORARY AND PERMANENT INJUNCTION, APPOINTMENT OF RECEIVER, AND OTHER RELIEF

Defendants Life Partners Holdings, Inc. and Life Partners, Inc. have engaged in fraud in connection with the sale of unregistered securities. Defendants Brian Pardo and Scott Peden have materially aided in this fraud through their role as officers of the defendant companies and through their own fraudulent conduct.

The State of Texas, acting by and through Greg Abbott, Attorney General of Texas, at the request of Securities Commissioner John Morgan, respectfully asks this Court for the following relief:

- Immediate entry of a Temporary Restraining Order enjoining the Defendants from continuing to commit fraud in connection with the sale of securities, enjoining

further violations of the Texas Securities Act, maintaining the status quo regarding ongoing advances of premium payments, and other injunctive relief;

- Immediate appointment of a Receiver for Defendants Life Partners, Inc. and Life Partners Holdings, Inc.;
- Entry of a temporary injunction and permanent injunction enjoining further violations of the law;
- Restitution and disgorgement of economic benefits pursuant to Texas Securities Act Section 32;
- Civil fines and penalties; and
- Recovery of reasonable costs and fees associated with bringing this action.

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I. DISCOVERY CONTROL PLAN

1. The State requests that discovery proceed under Level 3 as set forth in Texas Rule of Civil Procedure 190.4. The State expects this to be a large case with extensive discovery needed, and the flexibility provided by Level 3 will allow the Court to tailor a discovery plan to the specific needs of this case.

2. In addition, Plaintiff seeks expedited discovery to allow preparation for a hearing on its Application for Temporary Injunction.

II. NATURE AND SUMMARY OF THE ACTION

3. Defendants orchestrated a fraudulent enterprise through the illegal sale of securities in violation of the Texas Securities Act. Life Partners, Inc. and Life Partners Holdings, Inc. ("LPI" and "LPHI", respectively; together "the Companies") manufactured the value of life settlement investments through the use of artificially short life expectancies in the sale of these unregistered securities to investors. Immediate and emergency relief is necessary in this case because Defendants' fraudulent scheme is unraveling: revenues have declined rapidly, escrow accounts are depleting, policies are at risk, and the Companies will be out of cash in as early as 2 months. Despite this dire financial situation, Defendant LPHI has announced that it will pay a quarterly dividend of approximately $1.8 million on or around September 15, 2012. Defendant Brian Pardo, either directly or through his Pardo Family Trust, will benefit from this dividend by approximately $900,000.

4. The Companies acquire life insurance policies and then sell interests in the death benefits of the policies to investors. The Companies generate revenue by capturing the difference between the price they pay to purchase a policy and the price they charge investors for interests in the policy.

5. A central component in valuing a policy is the life expectancy estimate of the insured.

6. The Companies rely upon one life expectancy at purchase and then provide investors with a significantly shorter and artificial life expectancy in order to generate contrived and inflated revenues. The Companies' revenue scheme is analogous to a used car salesman purchasing a high mileage car, "rolling back" the odometer, then overcharging the subsequent purchaser and pocketing the difference. As part of the scheme, LPHI created a façade of legitimacy by touting its transparency as a publicly-traded company.

7. The Defendants' scheme has resulted in approximately 143,000 transactions from over 29,000 investors nationwide. Investors have entrusted over $1.5 billion in investment funds to the Companies and their conduct has placed better than $2.4 billion of policy face value at risk. Investor escrow funds are used to maintain policies by paying premiums to prevent policy lapse. One consequence of their fraudulent scheme is that the Companies failed to maintain adequate escrow balances. Because the Companies have used inaccurate life expectancies to reserve funds in escrow accounts, investor escrow accounts are underfunded by $300 million.

8. As of December 31, 2010, the Companies held 3,879 policies of which 3,152 were beyond the contrived life expectancy estimates provided to the investors. In other words, 81% of the policies are beyond their LPI-provided life expectancy estimates and have exhausted the premium funds held in escrow. Defendants were aware that the majority of policies sold had exceeded their LPI-provided life expectancy estimates, yet Defendants concealed material information regarding the life expectancies in order to continue the fraudulent scheme. In response to an email discussing the fact that insureds were not dying by the LPI-provided life

expectancy, Pardo instructed officers of the company that "this information is highly confidential" and "you should not disseminate this information to anyone..."

9. LPHI's public filings reflect a company in dire financial condition; the company realized a net loss from operations of over $5 million and a 78.8% decline in revenues during fiscal year 2012. If the Companies keep their current spending rates constant, the Companies may run out of cash within as little as 2 months. Inadequate escrow balances and severely-declined revenue may result in the lapse of policies, which would cause investors to lose their entire investment.

III. JURISDICTION

10. Defendants are selling investments in life settlements, and these investments are securities regulated by the Texas Securities Act.

11. The district courts of Travis County have jurisdiction over actions seeking injunctive relief under the Texas Securities Act:

> The District Court of any county, wherein it is shown that the acts complained of have been or are about to be committed, or a district court in Travis County shall have jurisdiction of any action brought under this section, and this provision shall be superior to any provision fixing the jurisdiction or venue with regard to suits for injunction.

Tex. Rev. Civ. Stat. Ann. § 581-32.A

12. The Texas Securities Act also grants jurisdiction over actions brought by the Securities Board seeking appointment of a receiver to conserve and protect the assets of persons and companies who engage in fraudulent practices in connection with the sale of a security:

> Such action [for appointment of a receiver] may be brought in a district court of any county wherein the fraudulent practice complained of has been committed in whole or in part, or of any county wherein any defendant with respect to whom appointment of a receiver is

> sought has its principal place of business, and such district court shall have jurisdiction and venue of such action; this provision shall be superior to any other provision of law fixing jurisdiction or venue with regard to suits for receivership.

Tex. Rev. Civ. Stat. Ann. § 581-25-1.B

13. The Securities and Exchange Commission also has jurisdiction over securities actions, and has sued LPHI, Inc., Brian Pardo, Scott Peden, and others, seeking sanctions and disgorgement against the companies and its officers based upon misrepresentations to stockholders made in connection with the sale of LPHI's common stock.. *SEC v. Life Partners Holdings, Inc., et al.;* No. 1:12-cv-00033-JRN (W.D. Tex., filed Jan. 11, 2012). The relief sought in this lawsuit does not address the fraud perpetuated against investors in the life settlement investments described herein and therefore will not benefit or protect the investors in the life settlement investments.

IV. VENUE

14. The district courts of Travis County have venue over actions seeking injunctive relief under Section 32.A of the Texas Securities Act:

> The District Court of any county, wherein it is shown that the acts complained of have been or are about to be committed, or a district court in Travis County shall have jurisdiction of any action brought under this section, and this provision shall be superior to any provision fixing the jurisdiction or venue with regard to suits for injunction.

Tex. Rev. Civ. Stat. Ann. §§ 581-32.A

15. Venue is also proper in Travis County under Section 25-1.B of the Texas Securities Act because one or more of the subject transactions occurred in Austin, Travis County, Texas:

> Such action may be brought in a district court of any county wherein the fraudulent practice complained of has been committed in whole or part, or of any county wherein any defendant with respect to whom appointment of a receiver is sought has its principal place of business, and such district court shall have jurisdiction and venue of such action; this provision shall be superior to any other provision of law fixing jurisdiction or venue with regard to suits for receivership.

Tex. Rev. Civ. Stat. Ann. § 581-25-1.B

V. PARTIES

A. Plaintiff

16. Plaintiff is the State of Texas, acting by and through Greg Abbott, Attorney General of Texas, at the request of Securities Commissioner John Morgan. The Securities Commissioner is charged with administration and enforcement of the Texas Securities Act. Tex. Rev. Civ. Stat. art. 581-3.

B. Defendants

17. **Life Partners Holdings, Inc.** (referred to singularly as "**LPHI**" or jointly with its wholly-owned subsidiary, Life Partners, Inc., as "**Companies**") is a Texas corporation and is a public company with its stock traded on the NASDAQ stock market. Defendant LPHI maintains physical addresses at 204 Woodhew Drive, Waco, Texas 76712 and 8225 Central Park Dr, Waco Texas 76172. It may be served with process by serving the President, any Vice President, or its registered agent, R. Scott Peden, at 204 Woodhew Drive, Waco, Texas 76712, or wherever he may be found.

18. **Life Partners, Inc.** (referred to singularly as "**LPI**" or jointly with its parent company, LPHI, as "**Companies**") is a Texas corporation and is a wholly-owned subsidiary of LPHI. It maintains physical addresses at 204 Woodhew Drive, Waco, Texas 76712 and 8225

Central Park Dr, Waco Texas 76172. Defendant LPI may be served with process by serving the President, any Vice President, or its registered agent, R. Scott Peden, at 204 Woodhew Drive, Waco, Texas 76712, or wherever he may be found.

19. **Brian D. Pardo** (referred to as "**Pardo**") is the Chief Executive Officer, Chairman of the Board, and President of Defendant LPHI, and he is the Founder and Chief Executive Officer of Defendant LPI. Defendant Pardo may be served with process at 908 Arlington Drive, Waco, Texas 76712, at 204 Woodhew Drive, Waco, Texas 76712, or wherever he may be found.

20. **R. Scott Peden** (referred to as "**Peden**") is the General Counsel and Secretary of Defendant LPHI and the President of Defendant LPI. Defendant Peden may be served with process at 1117 Charing Cross Drive, Waco, Texas 76712, at 204 Woodhew Drive, Waco, Texas 76712, or wherever he may be found.

21. LPHI, LPI, Pardo, and Peden are collectively referred to as "**Defendants.**"

C. Relief Defendants

22. Relief Defendants are believed to be in possession of money and/or assets belonging to the Defendants named above. The State seeks injunctive relief regarding such money and/or assets in the possession of Relief Defendants, but no wrongdoing is alleged herein against the Relief Defendants at this time.

23. **Advance Trust & Life Escrow Services, LTA** (referred to as "**Advance Trust**" or collectively with Purchase Escrow Services, LLC as "**Relief Defendant Escrow Agents**") is a Texas limited trust association that maintains a physical address at 4125 West Waco Drive, Suite 200, Waco, Texas 76710. It may be served with process through its registered agent, Dennis Gilliam, 4125 West Waco Drive, Suite 200, Waco, Texas 76710.

24. **Purchase Escrow Services, LLC** (referred to as "**Purchase Escrow Services**" or collectively with Advance Trust as "**Relief Defendant Escrow Agents**") is a Texas limited liability company that maintains a physical location at 510 North Valley Mills Drive, Waco, Texas 76710. It may be served with process through its registered agent Registered Agent Solutions, Inc., 515 Congress Ave., Austin, Texas 78701.

25. **Pardo Family Holdings, LTD, aka Pardo Family Trust** (referred to as "**Pardo Family Trust**") is a trust domiciled in Gibraltar. Defendant Brian Pardo is considered the beneficial owner of approximately 50.3% of LPHI's common stock, largely as the result of exercising voting power by proxy over shares held by Pardo Family Trust. Defendant Scott Peden has appeared as attorney for the Trust in public filings with the Securities and Exchange Commission. Plaintiff has diligently sought to determine how the Pardo Family Trust may be served with process, but has been unable to locate information identifying the trustee or any registered agent. Plaintiff asks that the court order expedited discovery on this issue, and, in the event that a registered agent cannot be located, order service by an alternate method as contemplated by Texas Rule of Civil Procedure 106(b)(2).

26. **Dr. Donald T. Cassidy** (referred to as "**Dr. Cassidy**") is a medical doctor who is both a resident of and licensed in the State of Nevada. Dr. Cassidy may be served with process at his office, located at 75 Pringle Way, Suite 711, Reno, Nevada 89502, or wherever he may be found.

27. **American Stock Transfer & Trust Co.** (referred to as "**Transfer Agent**") is LPHI's transfer agent for purposes of distributing and paying stock dividends and maintains a physical street address at 59 Maiden Lane, New York, New York 10038. Transfer Agent may be

served with process through the Texas Secretary of State, 1019 Brazos St, Austin, Texas 78701 for mailing to Michael Karfunkel, 59 Maiden Lane, New York, New York 10038.

VI. FACTUAL BACKGROUND

28. Defendants are engaged in the business of purchasing life insurance policies from living individuals, who may be terminally ill or elderly, and then selling fractionalized interests in those policies to investors, who are paid the face value of the policy when the insured dies. The life settlement process can be generally separated into two distinct transactions. The first is the purchase of such a policy from the policy holder and is called a "life settlement;" the second involves selling fractionalized interests in the death benefit of such policy to investors and is called a "life settlement investment."[1] A crucial component to both transactions is the life expectancy ("**LE**") of the person insured by the policy because the LE determines the value of the policy.

29. According to LPHI's public filings, the Companies have facilitated over 143,000 life settlement investment transactions involving over 6,500 policies totaling over $3 billion in face value. The Companies have achieved these sales numbers through a broad marketing campaign, which advertises the products as investments with the potential for an exceptional return on investment ("**ROI**"). LPHI became public primarily in order to provide transparency for their investors, not to raise capital. LPHI's formation as a publicly-traded company was part of the broad marketing effort to sell life settlement investments.

[1] The term life settlement investment includes all sales of policies by Defendants, including viatical policies (policies generally insuring the life a terminally individual) and life settlement policies (policies insuring the lives of individuals over 65).

A. LPI Acts as a Life Settlement Provider, Purchasing Policies From Insureds

30. Life settlements and life settlement investments are executed through a series of transactions, involving multiple parties and agents.

31. LPI acts as a Provider—a company that purchases life insurance policies from policyholders who wish to receive a cash payout for their life insurance policies. Providers are licensed by the Texas Department of Insurance and responsible for paying policyholders in life settlement transactions. This licensing requirement is designed to protect policyholders who must transfer ownership of the policies to LPI prior to receiving payment for such transfer.

32. LPI is generally contacted by policyholders or their representatives to sell their policies. The policyholder provides LPI with certain information about the policy so LPI can determine the value of the policy, verify the policy exists, confirm ownership of the policy, and verify the policy can be transferred. They also receive a medical history and actuarial LE of the insured.

33. The LE is crucial to LPI's valuation and ultimate purchase price of the policy. All else being equal, LPI is generally willing to pay more for a policy covering someone with a short life expectancy since that decreases the total amount of premiums that would need to be paid over the lifetime of the insured and there will be less time to wait for maturity. Conversely, LPI will pay less for policies with longer LEs.

34. LPI analyzes the policy to determine whether it is profitable for LPI and suitable to market to their retail clients, the investors. If approved, LPI begins negotiating a purchase price with the policyholder. If a price is agreed to, LPI and the policyholder execute a *Life Settlement Purchase Agreement* and the insured transfers ownership to LPI. LPI will generally advance any premiums that come due on the policy until it has identified enough investors to invest in the policy.

B. LPI then Acts as a Securities Issuer and Dealer, Marketing Life Settlement Investments

35. In addition to acting as a life settlement Provider, LPI also acts as a securities issuer and dealer. Once LPI acquires the settled policy, it bundles the policy with a new, significantly shorter LE and markets fractionalized interests in the death benefit to investors.

36. LPI works with its licensees, or commissioned sales agents, to identify investors who may want to purchase a share of the policy. Many of LPI's licensees are insurance agents who market these investments through public seminars, radio programs, print advertisements, direct mailing, and in-person solicitation. The Companies provide marketing materials and must review and approve all licensee-generated materials. Defendants Pardo and Peden frequently attend and personally participate in marketing seminars and radio programs. Defendant Peden has also personally executed correspondence about the investments directed to investors.

1. Investors are targeted and placed in specific policies.

37. When an investor decides to invest in life settlements with the Companies, the investor completes paperwork indicating the amount he wishes to invest in a policy and the LE range he prefers (e.g., 2-4 years, 3-5 years, 4-6 years). This paperwork includes a set of agreements that set out the relationship between LPI and the investor. The investor also tenders money to an escrow agent, who holds the funds until the investor is "placed" into a policy meeting the targeted LE range.

38. Some investors are given the opportunity to reject a policy in which they've been placed. If the investor does not reject the policy in a short timeframe set by LPI, or if the investor is not given the opportunity to reject the policy, the investor is considered "funded" or committed to that policy. LPI continues to place and fund investors in that policy until it is fully

subscribed, meaning sufficient funds have been raised from investors to proceed with closing the policy.

2. *Policies go through a closing, at which transfer of ownership is confirmed and fees are paid.*

39. LPI notifies the escrow agent when a policy is ready to close. At closing, the escrow agent confirms that the policy is still in force, ownership has transferred to LPI, and that no security interest has attached to the policy. The escrow agent then disburses investor funds as directed by LPI. In a typical closing, the escrow agent will disburse investor funds as follows: (1) the purchase price of the policy goes to the policyholder; (2) funds sufficient to cover premiums on the policy for the shorter, LPI-provided LE are placed in a premium reserve account; and (3) a fixed amount, in the range of $4000-5000 goes to the escrow agent for its fee. LPI pays approximately 5% of the face value of the policy to the policyholder's broker and 10-12% of the total amount raised from all investors as commissions to its licensees. LPI keeps the remainder, anywhere from 13.75%-22.63% as its fee.

40. The investor is not listed as either owner or beneficiary of the policy. The investors are not given a copy of the life settlement closing paperwork, nor are investors told the price paid to the policy holder for the policy or the associated fees for the two transactions, including payments to the Companies.

C. LPI and LPHI Perform Post-Investment Functions To Keep Policies In Effect

41. LPHI and LPI control all post-purchase decision-making regarding the payment of premiums. After the sale, the escrow agent pays premiums from the premium reserve account as directed by LPI in order to keep the insurance policy in force until the insured dies and the policy matures. The amount and frequency of the premium payments affect the overall rate of

return on the investment. LPI determines whether premiums will be paid as level payments, prepaid in advance of the due date, or "optimized," meaning paid on a graduated scale with lesser amounts due in the beginning of the policy and larger amounts due as the insured grows older.

42. By using level premiums, investors' policies are somewhat protected from the risk of paying significantly higher premiums during the life of the insured for a policy that could otherwise be "optimized." If the insured dies before the LE, any money paid in excess of what is minimally required to keep the policy in force is retained by the life insurance company and investors only get the death benefit amount and the remaining unused premiums, if any, which reduces the overall return of the investment.

43. Insurance companies will also accept less than the level premium amount to keep a policy in force during the earlier years of the policy, but the premiums will increase dramatically as the insured lives on. Paying lower premiums early in the policy's life allows investors to reap greater returns on maturity if the insured passes away within their expected LE because investors get unpaid premiums back as part of their return on investment. However, if the insured outlives his or her LE, premium optimization can result in higher premium amounts to keep the policy in force if the insured lives beyond LE. For this reason, the reliability of LEs are essential to the investment.

44. Defendants do not disclose to investors which method they use to pay premiums and the manner in which Defendants decide to pay premiums. Investors have no control over how premiums are paid and are unaware that different options exist.

45. When the funds in the premium reserve account are insufficient to cover upcoming premiums, such as when an insured outlives his LE and the premium reserve is

exhausted, LPI and/or LPHI advance funds to the premium reserve account to prevent policies from lapsing. LPI and/or LPHI issue premium calls to investors, notifying them that additional funds are necessary to pay premiums until the insured dies.

46. If investors send additional premium funds in response to a premium call, the Companies reimburse themselves from those funds.

47. If an investor cannot or will not contribute additional funds for premiums, LPI and/or LPHI take a lien against the investor's share of the death benefit or purchase the investor's share of the investment. LPI and/or LPHI may also facilitate the sale of the investor's share to another investor or take possession of the share for themselves.

48. If premiums are not timely paid to the insurance company, the policy will lapse and all of the investors will lose their right to the death benefit, regardless of whether the individual investor pays its share of the premium. The Companies do not tell investors whether their fellow investors have failed to make a premium call.

D. LPI Pays Post-Maturity Returns on the Life Settlement Investment from Policy Proceeds

49. LPI or its designated agent attempt to monitor the health status of the insureds and notify the escrow agent when an insured passes away. The *Life Settlement Purchase Agreement* executed between LPI and the policyholder precludes anyone other than LPI or its designated agent from contacting the insured to receive updated medical information.

50. Upon maturity, the escrow agent, as beneficiary, submits a claim to the insurance company and receives the death benefit from the policy.

51. LPI or its designated agent is responsible for litigating any claims against the insurance company if the insurance company contests the payment of the death benefit.

52. LPI instructs the escrow agent to disburse the proceeds of the policy to investors based on their pro rata ownership interest in the policy. If maturity occurs before LE, the investors receive the death benefit and their pro rata share of unused premiums. If maturity occurs after LE, the investors receive their pro rata share of the death benefit. If the Companies advanced premiums on behalf of an investor, the Companies reimburse themselves for the advance out of the investor's share of the death benefit.

E. LPI and LPHI Generate Revenue by Keeping the Difference between the Price Charged to Investors and the Price Paid to the Insureds

53. The Companies generate revenue by keeping the difference between the price they pay to purchase a policy and the price they charge investors. When the escrow agent receives investor funds, a portion of each investor's money is set aside to pay the premiums for the life expectancy of the insured and the remainder of the money is paid to the Companies as their fee (minus other transaction costs).

54. The Companies can only be profitable if they are able to sell life settlement investments for significantly more money than they purchased the policies. Therefore, there is a significant incentive for the Companies to market the investments with an artificially and contrived short life expectancy to create the perception that the life settlement investment has a higher value.

VII. ALLEGATIONS OF FRAUD.

A. Defendants Used Materially Short Life Expectancies to Maximize Profits Without Disclosing the Inaccuracy to Investors

55. The Companies have made misrepresentations in connection with the sale and offer for sale of investments in life settlements. The Companies and Defendants Pardo and

Peden have knowingly made misrepresentions of relevant facts and intentionally failed to disclose material information about LEs, the ROI, regulatory protections available to investors, risks associated with life settlement investments, control over policy decisions, ownership of the policies, and fees paid.

1. The LE is the Key Factor Influencing the Success or Failure of Life Settlement Investments

56. The Companies price their life settlements "based on the policy face amount, the anticipated life expectancy of an insured and policy maintenance costs." Life Partners Holdings, Inc., Annual Report (Form 10-K), at 13 (May 11, 2012). The LE is an essential element of all three factors.

57. The LE sets the value of a policy and is central to the initial transaction in which the Companies identify, examine, and purchase the policies from the insured. See *Id.* at 3. The purchase price of the policy is a negotiated amount that depends on the insured's LE. A policy with a shorter LE has a higher value, and a policy with a higher LE has a lower value. This is due to the fact that the LE determines the total outlay of money a purchaser will have to pay to (1) purchase the policy and (2) maintain the premiums during the expected life of the insured. Therefore a reliable LE is essential in determining the viability of a policy as an investment.

58. LPHI acknowledges in its public filings that the accuracy of the LE is crucial, and drives the investor's rate of return. Life Partners Holdings, Inc., Annual Report (Form 10-K), at 13 (May 11, 2012).

59. Significantly, the LE is also essential to the amount of money LPI keeps as its fee since the Companies generate revenue by keeping the difference between the price LPI purchases a policy from the policyholder and the price LPI ultimately charges investors for their

investment. The less LPI pays to purchase a policy, and the less LPI must set aside to make premium payments for LE, the more money is available for LPI's fee.

60. Defendants' fraudulent scheme centers on generating inflated profits. Defendants do this by purchasing the policy using one LE and selling investments using another, significantly shorter LE to investors. By way of example, LPI purchased a policy with a face value of $10 million from a bankruptcy estate through an open bidding process. The Bankruptcy Trustee obtained LEs from reputable providers, and marketed the policy with an LE of 124-139 months (10.3 to 11.6 years) based on those LEs. LPI paid the bankruptcy trustee $500,000 for this policy. LPI then changed the LE to 5 years and sold investments in the policy to investors for $5.3 million (which includes the purchase price, the amount reserved for premiums for the 5-year LE, plus fees and costs). LPI disclosed the 5-year LE to investors and concealed the longer LE.

61. The Companies profited over $1.2 million from this transaction. The Companies could not generate any revenue had they used the 10-year LE. The following chart illustrates the difference between the revenues generated for this particular policy using a 5-year LE disclosed to investors or the longer LE used by LPI in purchasing the policy.

	Actual Pricing 5 year Cassidy LE	Potential Pricing 8 year LE	Potential Pricing 10 year LE
Face Value of Policy	$10,000,000	$10,000,000	$10,000,000
Sales price to investors[2]	$5,300,000	$4,665,074	$3,855,433
Premium Reserves	$2,912,980	$4,015,480	$4,750,480
Price to Trustee	$500,000	$500,000	$500,000
Escrow fees	$7,880	$7,880	$7,880
Cassidy fees	$500	$500	$500
Licensee fees	$636,000	$559,809	$462,652
Remainder- LPI	**$1,242,640**	**($418,595)**	**($1,866,079)**

[2] The sales price to investors is calculated to reflect a 10% return as marketed by Defendants.

As the chart demonstrates, the Companies would lose $1.8 million in the transaction if they used the original 10-year LE. By changing the LE to 5 years, the Companies profited $1.2 million.

2. *Defendants Knowingly Used LEs that Were Significantly Short.*

62. From 1999 to 2011, LPI exclusively relied on LEs from Dr. Cassidy, whom it kept on retainer. Dr. Cassidy had no actuarial experience or training and his non-actuarially derived LEs consistently came in at about half of actuarial estimates provided by other reputable companies in the industry when compared for the same insureds.

63. Dr. Cassidy, a resident of Reno, Nevada, once shared office space with LPI's co-founder Dr. Jack Kelly. Dr. Kelly originally provided LEs for the viatical settlements brokered by LPI.[3] Dr. Kelly passed away unexpectedly in 1999.

64. Defendant Pardo met Dr. Cassidy at Dr. Kelly's funeral in 1999. Pardo and Dr. Cassidy had never met before. At Dr. Kelly's funeral, Pardo told Dr. Cassidy to review Dr. Kelly's LEs to determine "how they were doing it." Dr. Cassidy did so, and within days was rendering LEs for LPI. Between 1999 and 2011, LPI relied exclusively on Dr. Cassidy to provide LEs for the policies they were selling to investors.

65. LPI pays Dr. Cassidy $500 per policy purchased, plus a monthly retainer of $15,000.

66. Dr. Cassidy's methods differ significantly from industry practices, and result in LEs that are consistently and significantly too short. Compared to LEs provided by Dr. Cassidy, on the same insureds, and prepared contemporaneously, LEs provided by other firms are approximately twice as long as Dr. Cassidy's LEs.

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[3] Viatical settlements are life settlements in which the insured has a terminal illness. In the 1990's, shortly after LPI was founded, the primary disease affecting policyholders seeking viatical settlements was AIDS. LPI now brokers senior life settlements, in which the insured is an elderly person.

67. LPI, LPHI, Pardo, and Peden have been confronted with significant evidence that Dr. Cassidy's LEs were materially short. The Defendants knew that Dr. Cassidy's LEs were inaccurate.

68. The February 2003 Audit Committee quarterly report to the LPHI Board of Directors raised concerns with the number of policies in LPI's portfolio that had failed to mature. Defendants Pardo and Peden were both members of LPHI's Board of Directors in February 2003.

69. LPI filed reports with the Texas Department of Insurance, which included the LE data and the date of death of the insured. Based upon reports filed in December 2010, approximately 81% of the matured policies sold to investors by Defendants had exceeded Dr. Cassidy's LEs. The annual reports to TDI were compiled by LPI's legal department, which Defendant Peden oversaw.

70. In FY 2011 and FY 2012, the Companies made $2,246,835 in premium advances, net of reimbursements. These expenditures are directly related to policies exceeding the LEs proffered by Dr. Cassidy.

71. Based on data reported to the Texas Department of Insurance through December of 2010, LPI's policies are maturating an average of 81 months—*over six and a half years*—beyond Dr. Cassidy's LE.

72. Company officers exchanged emails in 2008 discussing the low maturity rates, stating that 13 of 37 policies purchased in 2004 had already exceeded their LEs by an average of 4.6 months, and that two policies had already exceeded their LEs by 20 months. The remaining 24 policies had neither matured nor reached LE. The sending officer stated that he had not detected "trends or anomalies that would indicate 2004 as an off year." Pardo replied:

> Mark- This information is highly confidential and should not be distributed to anyone beyond those copied. Of course this means the recipients and you should not disseminate this information to anyone without authorization from me. –Brian.

73. The SEC sued LPHI, Pardo, Peden, and others in January of this year, alleging multiple claims related to Dr. Cassidy's materially short LEs.[4] Since the SEC's action, the financial condition of the companies has rapidly deteriorated.

B. Defendants Failed to Disclose other LEs and Misrepresented Facts About Its Own Life Expectancies

1. Defendants Failed to Disclose the Companies' Reliance on Different LEs When Purchasing Policies

74. LPI policy files contain multiple LEs provided by other LE providers contemporaneously in time to the Dr. Cassidy provided LEs for the same insureds. The Companies did not disclose the other LEs that LPI used or had knowledge of regarding the insureds.

75. When purchasing a life settlement, LPI relied on an actuarial LE in order to evaluate the policies. However, Defendants did not disclose these actuarial LEs to investors even though the Companies represented to investors that LPI was providing all information necessary for the investor to make an informed decision with respect to investing in a particular policy.

2. LPI Failed to Disclose That Its Life Expectancies are Approximately Half as Long as Those Provided by Other LE Providers

76. LPI policy files contain multiple LEs provided by other LE providers contemporaneously in time to the Dr. Cassidy provided LEs for the same insureds. These

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[4] *SEC v. Life Partners Holdings, Inc., et al.*, No. 1:12-cv-00033-JRN (W.D. Tex., filed Jan. 11, 2012).

multiple LEs demonstrate that Dr. Cassidy's LEs were approximately half as long as those provided by the more reputable LE providers.

77. For example, for the period between 2006 through 2010 LPI files contained approximately 209 policies for which LE provider AVS also provided LEs. The average Dr. Cassidy LE for these 209 policies was just over 54 months, or a little longer than 4 ½ years. The average AVS LE for the same 209 policies was just over 115 months, or almost 9 ½ years.

78. Similarly, LPI files contained approximately 256 policies for which LE provider 21st Services also provided LEs.[5] The average Dr. Cassidy LE for these 256 policies was slightly over 54 months, or approximately 4 ½ years. The average 21st Services LE for the same 256 policies was almost 103 months, or approximately 8 ½ years.

79. Provider reports filed by LPI with the Texas Department of Insurance in or before 2010 reveal that for approximately 81% of matured LPI policies the insured died, on average, more than 6 ½ years after Dr. Cassidy's LE.

80. Investors were provided with Dr. Cassidy's materially short LE, and LPI did not disclose the existence of the other, longer LEs from these more reputable LE providers.

3. LPI Claims To Purchase Only Policies With LEs Under 10 Years, But Its Files Contain At Least 110 Policies with LEs Over 10 Years.

81. Since at least 2008, LPI's Agency Agreement has explicitly stated:

> Agent [LPI] shall identify and assist in the purchase for Purchaser [investor] such life settlement policies selected by Purchaser which comply with the following criteria:
>
> ...

[5] The files contained 258 policies for which LE provider 21st services provided LEs; however, two of the policies were illegible and these two were not considered in the analysis.

c. Insured must have an actuarially or medically determined life expectancy of no more than 10 years.

82. However, LPI has purchased for investment at least 110 policies with LEs beyond 10 years. For each of these policies, LP files contained at least one actuarial LE in excess of ten years as well as Dr. Cassidy LEs substantially below 10 years—typically in the 2-4 or 3-5 year range. Of these policies, 45 contained more than one LE over 10 years.

83. Investors were only provided with Dr. Cassidy's materially short LE.

C. Defendants Misrepresented the Return on Investment and Failed to Disclose the Number of Policies Beyond LE

84. LPI states, "It is accurate to say that, over the past 10 years, both the average and the median compounded return on investment has been in excess of 10%. While not a guarantee, this gives a clear and meaningful indication of the returns that previous purchasers have experienced." This 10% ROI figure appears in numerous other marketing materials, which are generally created or approved by the Companies.

85. This statement is false because it calculates returns based only on policies that matured at or before LE and fails to account for diminished returns relating to the extraordinary number of unmatured policies beyond LE. This conveys to investors a very misleading impression of the returns that have been experienced by investors historically or that can be reasonably expected.

86. The Companies decline to calculate the ROI for policies that have not matured on time. Based on reports filed by LPI with the Texas Department of Insurance in December 2010, approximately 81% of all LPI policies matured after their Dr. Cassidy-rendered LEs by an average of 6 ½ years. If LPI calculated ROI to include this information, its ROI for the 3,152

policies that were beyond their materially short LE as of December 31, 2010 would be approximately 3.46%, not "in excess of 10%" as touted by the company.

1. Changes Made Since 2011 Cannot Rectify the Mounting Shortfall Caused by Years of Using Fraudulent LEs.

87. Beginning in February 2011, the Companies claim that they use Dr. Cassidy's LE, alongside the LE of a more reputable actuarial company, 21st Services, LLC, to determine how much money to reserve to pay for premium payments. The Companies claim that as of February 2011, they use the longer of the 21st Services LE and the Dr. Cassidy LE to determine how much money will be placed into premium reserve accounts at closing.

88. However, it is unclear how the Companies can reserve adequate funds for the longer LE unless investors are willing to pay more for policies that are revealed to have a later likely maturity date. Even if it were possible to make that case to an investor, LPI does not purport to use this second, reputable LE to price its policies.

89. Despite these changes, Defendants continue to misrepresent the return on investment to investors.

90. Irrespective of these changes, the Companies' business continues to decline. The following chart, based on LPHI's recently filed annual statement demonstrates this decline:

	FY2010	**FY 2011**	**FY 2012**
Policies closed	186	166	62
Face value of policies	$541,755,547	$515,109,503	$180,043,976
Total Net Revenues	$59,540,774	$55,130,665	$11,714,430
Total Net Operating Income (Loss)[6]	$43,429,184	$35,147,791	($5,736,639)

[6] As restated in fiscal year 2011, for accounting adjustments to various items of revenue and expense.

D. Defendants Misrepresented the Regulatory Protections Available to Investors.

91. The Companies' marketing materials claim to offer the benefit of a "highly regulated company and transaction," with regulation by the Texas Department of Insurance. The company's marketing trifold brochure tells investors, "You enjoy the same regulatory protection available to all life insurance policy holders."

92. This is false. While LPI, as a life settlement provider, is regulated by the Texas Department of Insurance ("**TDI**") with respect to the initial procurement of the policy, TDI does not and, by statute, cannot regulate subsequent investments in those settled policies. Tex. Ins. Code §§ 1111A.0021(2) and 1111A.015(c). The investors to whom the Companies' marketing materials are directed are simply not protected by TDI.

93. Even if TDI did regulate investments in life settlements, which it does not, the insurance-based regulatory protections are only available to owners and beneficiaries of insurance policies. Investors are neither; LPI is the policy owner and the escrow agent is the beneficiary. Investors in life settlements receive none of the protections offered by insurance regulations.

94. Moreover, insurance statutes and regulations do not govern the payment of premiums in the life settlement investment context, which is a major source of risk to investors. Premium payments are generally a contractual matter between the policyholder and the insurance company. Insurance regulation does nothing to protect the investors in matters related to premium payments.

E. Defendants Misrepresented the Degree of Control Investors Have Over their Investments.

95. The Companies' marketing materials repeatedly state that LPI acts merely as an instruction-driven agent, allowing investors great control over their investments. However, investors actually control only two decisions: investors decide how much to invest and select a targeted LE range.

96. The Companies acquire and select the policies presented to investors. Investors are not provided any information they can use to independently verify the value of the policy. The Companies control the LE information given to investors, the information presented is based solely on Dr. Cassidy's materially short LE and any other LE information in the possession of the Companies is withheld from investors. Significantly, investors have no way of knowing that the Companies have rigged the entire investment by using this materially short LE.

97. The investor actually has very little "control" over their investment. Investors are at the mercy of every other investor's ability or willingness to pay premiums past the original LE and the Companies' ability and willingness to keep these policies afloat if an investor will not. Because investors have no way of identifying co-investors in their policies and cannot communicate with each other, the investors are completely dependent on the Companies to provide them with information or to take appropriate action to keep the policies in force.

F. LPI and LPHI Misrepresented the True Ownership of the Policies

98. The Companies advertise that investors have "control" by virtue of their ownership of the policy. *See* Booklet, Direct Fractional Ownership, Pros and Cons, at 20. But investors, in practice, have virtually no rights or control over their investment because investors are not in fact owners of the policy.

99. The insurance company has no contractual relationship with the investors and does not recognize any investor rights to alter, transfer or otherwise participate in the policy. LPI is listed with the insurance company as the only owner of the policy. Therefore, only the Defendants may communicate with the insurance company. In addition, LPI's escrow agent is the named beneficiary on the policy. When an insured passes away, the insurance company pays the escrow agent, not the investors.

100. The Companies have structured their life settlement investments so that the investors have virtually no rights. LPI owns the policy and, as owner, has the power to change beneficiaries. The escrow agent, not the investors, is entitled to receive payment from the insurance company. The investors are entirely dependent on the Companies and the escrow agents.

G. Defendants Failed to Disclose Key Information About the Payment of Fees

101. The Companies' revenue comes directly from the money paid by the investors—it keeps the difference between the amount paid by the investor to acquire an interest and the amount that LPI must pay to the owner of the policy, along with other fees at closing.

102. The Companies collect their fee when LPI closes policies at the start of an investment. Defendants failed to disclose the significantly lower purchase price from the policyholder and the amount of money Defendants retained as their fee. The fees paid to the Companies and their licensees are in excess of 34% of the total acquisition cost charged to investors.

VIII. CLAIMS FOR RELIEF

A. Violations of the Texas Securities Act

Count 1: Defendants Committed Fraud and Engaged In Fraudulent Practices In Connection with the Sale of Securities in Violation of Sections 25-1 and 32.A of the Texas Securities Act

103. The preceding paragraphs are incorporated by reference to support this cause of action as if fully set forth herein.

104. The use of fraud and fraudulent practices in connection with the offer for sale and sale of securities is prohibited by Section 25-1 and 32.A of the Texas Securities Act. Section 4F of the Texas Securities Act defines fraud and fraudulent practice as including

> any misrepresentations, in any manner, of a relevant fact . . . [and] any promise or representation or prediction as to the future not made honestly and in good faith, or an intentional failure to disclose a material fact; the gaining, directly or indirectly, through the sale of any security, or an underwriting or promotion fee or profit, selling or managing commission or profit, so gross or exorbitant as to be unconscionable; any scheme, device or other artifice to obtain such profit, fee or commission; provided, that nothing herein shall limit or diminish the full meaning of the terms 'fraud,' 'fraudulent,' and 'fraudulent practice' as applied or accepted in courts of law or equity.

105. Defendants LPI, LPHI, Pardo, and Peden committed fraud and engaged in fraudulent practices by misrepresenting relevant facts; intentionally failing to disclose material information and/or making statements that are materially misleading or likely to deceive the public; making promises, representations, or predictions as to the future and such promises, representations, and predictions were not made honestly or in good faith; and gaining, through the sale of a security, an unconscionable and exorbitant fee. The Defendants mislead investors by, among other things, intentionally failing to disclose the longer LEs from reputable providers, misrepresenting the ROI, intentionally failing to disclose the number of policies that had not matured and the adverse affect to the ROI, misrepresenting that LPI only purchases policies with

LEs under 10 years, misrepresenting that investors enjoy the same regulatory protections available to policyholders, misrepresenting that the investors' life settlement investment transaction is regulated by the Texas Department of Insurance, misrepresenting the investors' control over the investment, and misrepresenting that investors had an ownership interest in the policies. These misrepresentations and failures to disclose were made through marketing materials, contracts with investors, LPHI's public filings, and other public statements by the Defendants.

106. Such fraudulent acts and practices were committed in connection with the sale of life settlement investments, which are securities. These acts constitute fraud and fraudulent practices in violation of sections 25-1 and 32.A of the Securities Act.

Count 2: Defendants Sold and Offered for Sale Unregistered Securities in Violation of 7.A(1) of the Texas Securities Act

107. The preceding paragraphs are incorporated by reference to support this cause of action as if fully set forth herein.

108. The Texas Securities Act prohibits the sale or offer for sale of unregistered securities.

109. Life settlement investments sold and marketed by Defendants are securities subject to the Texas Securities Act.

110. Defendants LPI, LPHI, Pardo, and Peden have acted as dealers, agents, or salesmen, or affiliates thereof, in connection with the sale or offer of the life settlement securities. LPI acted as dealer, entering into the formal contractual relationship with investors. LPHI acted as an affiliate of LPI, and acted as a dealer by creating and approving marketing materials used in connection with the sale as well as through statements made in its public filings with the SEC. Defendants Pardo and Peden acted as affiliates of the Companies, and acted

directly as dealers through their participation in marketing seminars and written communications with investors.

111. The life settlement investments have not been registered with the Securities Commissioner and a permit has not been granted for the sale of such securities required by Section 7 of the Texas Securities Act.

112. Defendants LPI, LPHI, Pardo, and Peden have therefore violated the Act by selling or offering for sale unregistered securities.

113. Through these actions, the Defendants have violated the Texas Securities Act.

Count 3: Defendants Were Not Registered to Sell Securities In Violation of Section 12.A of the Texas Securities Act

114. The preceding paragraphs are incorporated by reference to support this cause of action as if fully set forth herein.

115. Section 12.A of the Texas Securities Act requires that all persons selling or offering to sell securities in Texas must be registered under the Act.

116. Defendants LPI, LPHI, Pardo and Peden, together with various sales agents, were not registered as dealers, agents, or salesmen as required by Section 12.A of the Texas Securities Act.

117. Despite this failure to register, Defendants offered for sale, directly and through agents or salesmen, securities in Texas. LPI acted as dealer, entering into the formal contractual relationship with investors. LPHI acted as an affiliate of LPI, and acted as a dealer by creating and approving marketing materials used in connection with the sale as well as through statements made in its public filings with the SEC. Defendants Pardo and Peden acted as affiliates of the Companies, and acted directly as dealers through their participation in marketing seminars and written communications with investors.

118. Defendants LPI, LPHI, Pardo, and Peden have therefore violated the Act by selling or offering to sell securities in Texas without first registering to sell such securities.

119. Through these actions, Defendants have violated the Texas Securities Act.

B. Claims for Equitable Relief

1. Injunctive Relief Pursuant to Texas Securities Act Section 32.A

120. Immediate injunctive relief in the form of a temporary restraining order against Defendants is necessary to restrain Defendants from further offering or selling life settlement investments and expanding the already large class of investor-victims. In addition, immediate injunctive relief is necessary to enjoin Defendants from wasting, secreting and otherwise dissipating the investors' funds, derived funds, revenues and other assets required and held in connection with the sale of the life settlement investments to the public. Immediate injunctive relief is also necessary to enjoin Relief Defendants from wasting, secreting and otherwise dissipating the investors' funds, derived funds, revenues and other assets, as well as records, books, documents, and other information held on behalf of the Defendants. Finally, immediate injunctive relief is necessary to enjoin Defendants and Relief Defendants from interfering with the Receiver as he carries out his duties.

121. Section 32.A of the Securities Act authorizes the Attorney General, upon the request of the Commissioner, to bring an action against a broad range of persons and entities to enjoin the continuation of "fraud or a fraudulent practice in connection with the sale of a security."

122. Based upon the conduct alleged herein, and pursuant to Section 32.A of the Securities Act, Defendants LPI, LPHI, Pardo, and Peden have engaged in, are engaging in, and are about to engage in fraud or fraudulent practices. In addition, Defendants LPI, LPHI, Pardo,

and Peden have made offers to sell securities that are materially misleading or otherwise likely to deceive the public. Defendants have engaged in these fraudulent and misleading practices in connection with the sale or offer for sale of the life settlement investments, or with reckless disregard for the truth. These fraudulent and misleading practices have been committed in connection with the sale of a security.

123. The State respectfully asks this Court to grant a temporary restraining order, in substantially the form provided, rendered before hearing and without bond by the Commissioner or the Attorney General, as provided by Section 31.A, until determination of the State of Texas's Motion for Temporary Injunction, or other order of the Court, enjoining Defendants, Relief Defendants and any and all persons acting in concert with them from dissipating assets, destroying books or records, engaging in fraud, interfering with any investigation by a law enforcement or governmental authority, communicating with investors or interfering with the receiver or the receivership estate.

124. The State asks that all relief requested in the form of a temporary restraining order be extended when the Court considers the State's request for temporary and permanent injunctions.

2. *Appointment of Receiver For Life Partners, Inc. and Life Partners Holdings, Inc., Pursuant to Texas Securities Act Section 25-1*

125. The preceding paragraphs are incorporated by reference as if fully set forth therein.

126. The State seeks the immediate appointment of a temporary receiver for the Companies and, upon hearing, the continuation of that appointment and, upon further hearing, the appointment of a permanent receiver pursuant to Section 25-1 of the Texas Securities Act.

127. Defendant LPI has engaged in fraud in connection with the sale of securities and a receiver is necessary to ensure that investor funds are accounted for, conserved, and returned to investors. Pursuant to Securities Act Section 25-1.C, such appointment may be made without notice.

128. Defendant LPHI has engaged in fraud in connection with the sale or offer for sale of securities and a receiver is necessary to ensure that investor funds are accounted for, conserved, and returned to investors. Pursuant to Securities Act Section 25-1.C, such appointment may be made without notice.

129. Defendants have acted as dealers, salesmen, or issuers in the sale of securities and engaged in acts, transactions, practices, and courses of business declared by Section 32.A to be fraudulent practices in the offer for sale and sale of securities as described above.

130. The appointment of a receiver for the Companies and its business operations is necessary in order to conserve and protect whatever purchaser or investor-derived assets remain for the benefit of the Companies' investors, security holders and other actual or potential claimants.

131. A receiver is needed for the funds and assets of Defendants, including any investment product they obtained through proceeds of investor-derived money, in order to conserve and protect said funds and assets for the benefit of the investors should restitution be granted in this case under Section 32.B of the Texas Securities Act.

132. Any changes in the manner in which the Companies conduct their life settlement investment business since February 2011 are of no benefit to investors participating prior to that time and further provide no positive impact to these investors' premium reserve accounts.

133. Unless the receivership relief is granted and a temporary receiver is appointed for the assets and affairs of the Companies, the funds and other property held by the Companies will be dissipated and lost, to the immediate and irreparable harm of the persons who purchased the investments from LPI and to the harm of the general public. This includes $900,000 to be paid to Defendant Pardo, as declared in LPHI's most recent quarterly dividend announcement. There is no adequate remedy at law.

134. All receivership relief sought in this case is available to the State of Texas as Plaintiff without bond for the Commissioner or the Attorney General under Section 25-1 of the Texas Securities Act.

135. **Richard B. Roper of Thompson & Knight, LLP has agreed to serve as Receiver** in this case if appointed by the Court. Mr. Roper is a licensed attorney practicing in Dallas, Texas and has substantial experience, expertise, and knowledge in securities laws. Mr. Roper has previously served as court appointed receiver over companies involved in life settlement investments.

136. The State asks that the Court issue an order, before notice and hearing, appointing Richard B. Roper of Thompson & Knight, LLP, as Temporary Receiver of Defendants LPI and LPHI, with the specific powers and authority set forth in the proposed order submitted with this application.

137. The State further requests that the Court issue an order, after notice and hearing, extending the appointment of the temporary receiver to take charge of all property and assets held and claimed by the Companies with the powers outlined above.

138. The State further requests that the Court Issue an order that all property and assets held and claimed by the Companies in any capacity be placed in *custodia legis* as of the date of the appointment of the temporary receiver and the issuance of the temporary injunction herein.

139. Upon final hearing hereof, the State requests that the Court make permanent the order directing the Receiver to take possession of the affairs of the Companies and direct the Receiver to manage, reorganize, and/or liquidate the affairs of the Companies as the facts and circumstances may require.

3. Restitution/Disgorgement of Economic Benefit Pursuant to Texas Securities Act Section 32.B

140. The preceding paragraphs are incorporated by reference as if fully set forth therein.

141. Section 32.B of the Texas Securities Act authorizes the Attorney General to seek equitable relief, including restitution, for defrauded investors. "The court may grant any equitable relief that the court considers appropriate and may order the defendant to deliver to each victim . . . the amount of money or the property that the defendant obtained from the victim . . ." Tex. Rev. Civ. Stat. art. 581-32.B.

142. Based upon the conduct alleged herein, and pursuant to Section 32.B of the Securities Act, the State of Texas is seeking restitution and disgorgement of economic benefits for the victims of fraudulent practices and any other equitable relief that the State of Texas may be justly entitled.

4. Imposition of Constructive Trust

143. The preceding paragraphs are incorporated by reference as if fully set forth therein.

144. The State of Texas also seeks the imposition of a constructive trust and equitable lien with respect to assets of any kind obtained through the fraudulent scheme including, but not limited to, all debts owing to Defendants in connection with any loans made to third parties pursuant to the scheme and assets fraudulently transferred to third parties and any proceeds from those loans and fraudulent transfers.

5. Civil Penalties

145. The preceding paragraphs are incorporated by reference as if fully set forth therein.

146. Further, pursuant to Section 32.C, the State of Texas seeks the payment of civil penalties to be paid in an amount, together with the amount of any administrative fine already assessed under Subsection B of Section 23-1, not to exceed: (1) the greater of (A) $20,000 per violation; or (B) the gross amount of any economic benefit gained by the person or company as a result of the commission of the act or practice; and (2) if the act or practice was committed against a person 65 years of age or older, an additional amount of not more than $250,000.

6. Recovery of Costs and Fees

147. The preceding paragraphs are incorporated by reference as if fully set forth therein.

148. Pursuant to Section 32.D of the Texas Securities Act, the State of Texas seeks recovery of reasonable costs and expenses incurred by the Attorney General in bringing the action for disgorgement.

7. *Subpoena Requiring Appearance and Production of Documents*

149. The preceding paragraphs are incorporated by reference as if fully set forth therein.

150. Pursuant to Section 32.A of the Texas Securities Act, the Attorney General may ask the Court to issue a subpoena requiring the appearance of any Defendants and their employees or agents, including but not limited to their licensees, or the production of documents, books, and records.

IX. PRAYER FOR RELIEF

For the reasons stated herein, the State of Texas, acting by and through Greg Abbott, Attorney General of Texas, at the request of Securities Commissioner John Morgan, respectfully asks this Court to:

151. Grant the State's applications for temporary restraining order and temporary injunction, in substantially the form provided with this petition, against all Defendants, and permanent injunction against all Defendants;

152. Grant the State's request for appointment of a temporary receiver for Defendants LPI and LPHI, in substantially the form provided with this petition, and permanent receiver for Defendants LPI and LPHI;

153. Find that Defendants have violated Section 7 of the Texas Securities Act by selling unregistered securities;

154. Find that Defendants have violated Section 12 of the Texas Securities Act by failing to register to sell securities;

155. Find that Defendants have violated Sections 25-1 and 32 of the Texas Securities Act by committing fraud and engaging in fraudulent actions in connection with the sale of a security;

156. Grant the State's request to impose a constructive trust on all assets belonging to Defendants derived from the fraud committed by them;

157. Grant the State's request for restitution and disgorgement of economic benefits;

158. Grant the State's request for assessment of all applicable fines, fees, and costs;

159. Order that no bond be required of the State in accordance with Texas Securities Act Sections 25-1.D and 32.A; and

160. Grant such other and further relief, equitable and legal, to which the State of Texas may be entitled.

Respectfully submitted,

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VERIFICATION

STATE OF TEXAS

COUNTY OF TRAVIS

BEFORE ME, the undersigned authority, on this day personally appeared John Morgan, Securities Commissioner of the State of Texas, who, being by me first duly sworn, deposed and said that he has read the allegations in the foregoing petition, and upon information and belief, each and every fact and matter stated in paragraphs 28 through 102 therein is believed to be true and correct.

John Morgan
Securities Commissioner
State of Texas

SUBSCRIBED AND SWORN to before me, this the 15th day of August, 2012.

SONIA P FERGERSON
NOTARY PUBLIC
State of Texas
Comm. Exp. 04-22-2016

Sonia P Fergerson
Notary Public in and for
The State of Texas